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The Accounting Historians NOTEBOOK

Vol 9, No. 1

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Spring, 1986

HENRI FAYOL, ACCOUNTING AND CONTROL: AN ENVIRONMENTAL REFLECTION

by
Lee D. Parker
Griffith University

Henry Fayol (1841-1925) was a leading administrator in the French mining and metallurgy industry. After studying at the Lycée at Lyons and the Ecole Nationale Des Mines de Saint Etienne, he was appointed engineer of the Commentry pits of the S.A. Commentry-Fourchambault combine in 1860. By 1888 he had risen to the managing directorship of that company, retiring as chief executive in 1918 but remaining as a director. During his lifetime he was awarded a number of prizes and honors.¹ In 1916 he published his now famous *Administration Industrielle et Générale-Prévoyance, Organisation, Commandement, Co-ordination, Controle*, in the Bulletin de la Société de l'Industrie Minérale.² Fayol attempted to develop a teachable theory of general management via a comprehensive set of principles. This theory was intended to demonstrate the benefits of adopting a scientific approach to the management of large organizations and represented the first attempt to outline a general theory of administration.

What have not been recognized by accountants are the contributions which Fayol made to the management view of accounting and budgets, classical management definitions of control employed by accounting writers, and the concept of goal congruence subscribed to by many accounting writers. In briefly outlining these contributions, this paper argues that both his conceptual contributions and his own renowned success as an administrator reflected the socio-economic and industrial environment in which he worked. On this basis it is argued that in part, an important accounting definition and an important accounting concept have been influenced to some degree by the contextual environment of a renowned management writer.

THE IMPORTANCE OF ACCOUNTING AND BUDGETING

Fayol (1949, p. 5) considered the accounting group to be the "visual organ of business." He saw its role to be one of

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MESSAGE FROM THE PRESIDENT

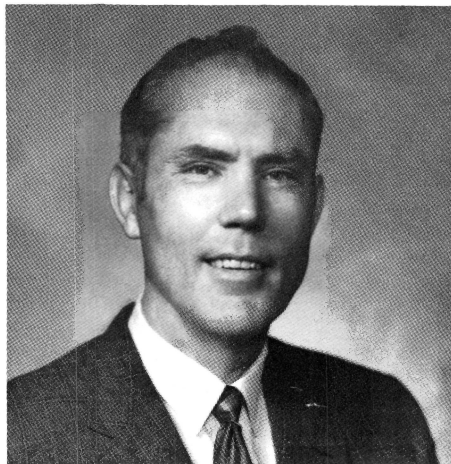
Upon assuming the office of President of The Academy of Accounting Historians, I cannot help but be impressed with the tremendous strides made in the field of accounting history since the late 1950's. When I first studied accounting history under Professor Dorothy Litherland at the University of Illinois, few accounting professors were seriously interested in history. The increase in the interest in accounting history, as well as the significant increase in the amount of high quality research and publication being done in this field, are due largely to the efforts of The Academy and its members. It's indeed a privilege for me to serve as President and to have some part in the continued development of the field of accounting history.

As an active member of several professional organizations, I know of none in which such a large proportion of the membership has contributed so unselfishly of their time and their considerable talents. This high level of commitment has made The Academy a unique organization.

Because of the increase in size and complexity of The Academy's operations, last year Ed Coffman instituted some very sound changes in our organizational structure, as reflected in the organization chart in the spring 1985 issue of the *Notebook*. The new structure is working well and should serve our needs for the foreseeable future.

On November 10-11, 1985, I attended the Dedication Seminar of The Accounting History Research Center at Georgia State University. Norman Dressel, Elliott Slocum, Al Roberts, and their colleagues are to be congratulated on this outstanding program. The Center will be a major resource for The Academy.

Ken Most's tenure as Manuscripts Editor of *The Journal* will end with the 1986 fall



Merv Wingfield

issue. I would like to thank Ken for the outstanding job he did. Gary Previts has assumed the responsibility of Manuscripts Editor-Elect of *The Journal*.

The 1986 AAA annual meeting in New York will feature two excellent sessions on accounting history. The first, "Early Developments in Accounting Thought and Practice," will be on Friday, morning, August 22 and the second, "Topics in the History of Accounting," will be on Saturday afternoon, August 23. I look forward to seeing you at these meetings as well as at our annual business meeting on August 21.

THE ACCOUNTING HISTORIANS NOTEBOOK

The Academy of Accounting Historians
Box 658
Georgia State University
University Plaza
Atlanta, Georgia 30303

Editor: Dale L. Flesher
School of Accountancy
University of Mississippi
University, Mississippi 38677

GUESS WHO CONTEST NUMBER SEVEN

Contest Number Six was a tough one. Only one person, Dr. Hans Johnson of the University of Tulsa, was able to guess that the individual in the picture was Horace Givens—a professor at the University of Maine at Orono. Givens has been a vice president of the Academy and is currently the chairman of the Academy's Accounting History Education Committee. Although Hans Johnson was the only person to make a correct identification, there were several incorrect entrants. The most common answer was that the person in the picture was Richard Brief of New York University, who was a former president of the Academy.

Now, on to Contest Number Seven. The picture in this issue is of one of the most famed accountants of all time. In fact, this contest is probably too easy. The individual in the photo was a former president of the American Institute of Certified Public Accountants, was elected to the Accounting Hall of Fame, and was a candidate for president of the United States. If you can't guess the person's identity from those clues, then you don't deserve to call yourself an accounting historian.

If you are the first to send in the correct identification, you will receive a valuable prize. That prize is a copy of a book entitled **THE NEW-PRODUCT DECISION** which was coauthored by Dale and Tonya Flesher. This book would cost you \$15.95 if you were to buy it from the National Association of Accountants.

As in past contests, there will actually be two prizes awarded—one for the first correct entry from North America and one for the first correct entry postmarked outside of North America. This policy allows for the delay in the mail service of foreign members. Officers and trustees of



GUESS WHO?

the Academy are encouraged to participate, but are not eligible for prizes. Put on your thinking caps and send your entry to Dale L. Flesher at the editorial address.

MANUSCRIPTS AND SHAGGY DOG STORIES

Anyone wishing to submit article manuscripts, short notes, cartoons, shaggy dog stories, letters to the editor, or other filler to **THE ACCOUNTING HISTORIANS NOTEBOOK** should send the material to the editor, Dale L. Flesher, School of Accountancy, University of Mississippi, University, MS 38677.

CALL FOR ESSAYS ON HISTORICAL ACCOUNTING TOPICS

Members of the Academy of Accounting Historians are invited to participate in the centennial celebration of the American Institute of Certified Public Accountants by submitting an essay(s) on an historical accounting topic for possible publication in a special centennial issue of the *Journal of Accountancy*. This issue of the *Journal* will be published in June 1987 and will be edited by James Don Edwards, J. M. Tull Professor of Accounting, University of Georgia.

Essays should be on a single significant historical accounting event in the United States within the last 100 years that has had an impact on the accounting profession (e.g., enactment of the Securities Act of 1933 and the Securities Exchange Act of 1934). You are encouraged to include as the subjects of your essays not only the

more obvious events, but also important events that might have been less thoroughly covered in the accounting literature. Essays are to be limited to 600 words in length and are due by September 1, 1986. Three copies of essays should be submitted to:

Edward N. Coffman

School of Business

Box 4000

Virginia Commonwealth University

Richmond, Virginia 23284-0001, U.S.A.

Papers will be reviewed by a three-member review committee comprised of members of The Academy.

For your information, the 100th anniversary meeting of the American Institute of Certified Public Accountants will be held in New York on September 19-24, 1987.

MANAGEMENT ACCOUNTING HISTORY SEMINAR

One of the preconvention seminars to be held prior to this year's AAA meeting in New York will be one on management accounting historical research. The subject of this course is the role of history in both the teaching and the research of management accounting topics. The first half day of the course surveys recent literature in management accounting history, primarily to acquaint teachers with new material that will enhance their own courses in management and cost accounting. The second half day of the course considers management accounting history as an arena for field research, an approach to research that recently has received a great deal of attention from management accounting scholars. This half of the course

demonstrates that historical field research forces scholars to examine management accounting's organization context, a context that has been ignored lately by scholars who focus on management accounting's decision-useful, agency, and behavioral contexts.

The course is intended for all persons whose teaching and research involves topics in management accounting and cost accounting, as well as persons who have an interest in accounting history generally. The instructor, H. Thomas Johnson, himself teaches and writes extensively on the subject of management accounting history; he also serves on the editorial board of *The Accounting Review*, as a

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NEW JOURNAL EDITORIAL POLICY

Gary Previts of Case Western Reserve University was recently selected to replace Kenneth Most of Florida International University as the manuscripts editor of *The Accounting Historians Journal*. Previts has selected three associate editors to work with him in the area of manuscript development. The new associate editors are: Mary Stone (Alabama), Bob Colson (Case Western), and Lee Parker (Griffith University).

Mary Stone's job will primarily be to work with established experts in a field to develop articles that analyze the activities of a particular period of time in the accounting profession. Bob Colson will work with authors of nonhistoric dissertations who have included historical sections in their dissertations. The objective is to make nonhistorians aware of the publication opportunities available for their historical material. Lee Parker, a native Australian, will work with authors outside of North America.

Upon taking over as editor, Previts implemented one minor change in the *Journal's* editorial policy. Basically, Previts feels that historical research should have a message for the present day. Thus, authors should emphasize the relevance of their findings to current practice. In other words, the historical research published in the *Journal* should have relevance to non-history researchers who are studying current aspects on the same topics. Previts' primary objective is to increase the citation value of the *Journal* and to increase its readership among nonhistorians.

Manuscripts should be sent, in triplicate, to:

Gary Previts, Editor
Weatherhead Graduate School of
Management
Case Western Reserve University
Cleveland, Ohio 44106

WORKING PAPER SERIES

Working papers on research in accounting history are published on an irregular basis. A complimentary copy of each working paper issued during a fiscal year is available to members upon request during the fiscal year the working paper is printed. The two most recent working papers are: No. 61, "Fixed Costs/Variable Costs: The First One Hundred Years," by Edward A. Becker of the University of North Carolina at Wilmington; and No. 62, "The Effect of ICC Regulation on the Accounting Practices of Railroads Since

1887," by Richard Dusenbury of Flagler College in St. Augustine, Florida. Copies of working papers *produced in prior years* are available to members at a nominal cost of \$2.00

Papers for possible inclusion in the Working Paper Series should be submitted to:

Rasoul H. Tondkar, Editor
School of Business
Virginia Commonwealth University
Richmond, Virginia 23284, USA

THE GAUSSEN ACCOUNT BOOK OF 1791 AND THE SANDBY ART COLLECTION

by
Robert W. Gibson
Deakin University

An account book entry made nearly fifty years before the settlement of Victoria provides the clue to the collection of the art of Paul Sandby in the City of Hamilton Art Gallery. Hamilton, settled in 1837, is a city of 10,000 people, 200 miles west of Melbourne in the midst of an area which is renowned for its production of fine wools. The City Art Gallery has a collection of the drawings of Paul Sandby R.A. which is unique because it is a personal collection assembled in the artist's lifetime. Other large collections are at Windsor Castle, the British Museum, the Castle Museum, Nottingham and the Yale Center for British Art in New Haven.

Paul Sandby, born 1730 in Nottingham, produced a prodigious amount of work and was distinguished as one of the founding members of the Royal Academy. The original collection at Hamilton comprised six large pictures, six medium size pictures and six smaller pictures, along with two groups of miniatures displayed in what are said to be the original frames.

The link between the artist and this collection is identified through an account book. Antonio Cesare Poggi, artist, was born in Parma and went to England about 1769. He married a Miss Lewis in Devon and quickly spent her money. In the 1790's he was an art dealer in London and published a few prints. These included

Sandby's *Sheep, Trees and Cloudy Sky* which is in the Hamilton gallery. The only known copy of the print is in the British Museum.

Poggi had difficulties with the estate of Sir Joshua Reynolds and in 1801 there were public auctions of his collection and stock. The fourth and last day of the second sale included over fifty works by Sandby many of which are in the Hamilton gallery.

Samuel Robert Gausсен, a London merchant, probably acquired the drawings at this time. While most of the Gausсен family records were destroyed by fire in 1891, the surviving records include an account book. This book includes a listing in 1791 of loans made by Samuel. Among these is the sum of five hundred pounds lent to Antonio Cesare Poggi with the comment "doubtful." It is inferred that Samuel Gausсен took the drawings in settlement.

The Gausсен family later acquired pastoral property in the Western District of Australia. Mr. Charles Gausсен of Gringegalgona accepted an offer of the State Government of Victoria in 1971 and the collection was housed in the new gallery. Thus a single account book record which has survived fire and two centuries provides the key evidence in resolving the origins of this notable collection.

FEDERAL FUNDING POSSIBILITIES FOR ACCOUNTING HISTORY RESEARCH

Robert M. Kozub
University of Wisconsin-Milwaukee

An independent grant-making agency, the National Endowment for the Humanities (NEH), was established by Congress in 1965 to support research, education, and public projects in the humanities. Included in the definition of the term humanities is the study of history. Of particular interest to accounting historians is that NEH encourages and supports advanced study and research in the disciplines of the humanities through its fellowship, summer stipends, and travel to collections programs. Each of these programs will be highlighted below.

Fellowship

The National Endowment for the Humanities offers two separate fellowship programs for college and university faculty members. One program, Fellowships for College Teachers, is intended for teachers, who primarily teach undergraduate students at a two-year, four-year, or five-year colleges and at universities that do not have Ph.D. programs. The other program, Fellowships for Independent Study and Research, is intended for individuals affiliated with academic institutions with extensive Ph.D. programs in the humanities. Both programs provide opportunities for individuals to pursue independent study and research that will enhance the researcher's capabilities as a teacher, scholar, and interpreter of the humanities.

Summer Stipends

The NEH's Summer Stipends Program provides support for faculty members in two-year and four-year colleges, and universities so that they can devote two

consecutive months of full-time study and research to their projects. An applicant's project may be one that can be completed during the stipend period, or it may be part of a long-range endeavor.

Each college and university in the United States and its territorial possessions may nominate three members of its faculty for the Summer Stipends competition. No more than two of the nominees may be at either the early stages of their careers or the advanced stage.

Travel to Collections

The Travel to Collections Program was designed to enable American scholars to travel to the research collections of libraries, archives, museums, or other repositories to consult research materials of fundamental importance for the progress of the scholar's work. The grant program is intended to assist individual scholars defraying the costs associated with a research trip to those collections within North America or Western Europe. Preference is given to those scholars who have no other source of funding for the research trip proposed. The amount of the award is limited to \$500 and only research trips whose costs exceed that amount will be considered for the award.

Please note that candidates for degrees and persons seeking support for work leading to a degree are not eligible for any of these programs. For more information on these programs contact the National Endowment for the Humanities, Washington, D.C. 20506 or the research office on your campus.

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Editor's Note: Readers are urged to keep the editor of THE NOTEBOOK alerted to publications which should be listed in this column. Send your suggestions to Dale Fleisher at the editorial address. Readers in Asia and Australia may send their suggestions to Dr. Robert Gibson, School of Management, Deakin University, Victoria 3217, Australia.

CALL FOR HOURGLASS AWARD NOMINEES

The Academy's 1986 Hourglass Award Selection Committee is seeking nominations for consideration. The award is in recognition of significant contributions to the literature of accounting history. Past awards have recognized major books and monographs as well as consistent contributions to the literature over time through published articles or other works. Authors of books published since 1980 will receive preferable consideration from the committee.

Nominating statements should be sent to:

Professor Gary John Previts
Department of Accountancy
Weatherhead School of Management
Case Western Reserve University
Cleveland, Ohio 44106

SHAGGY DOG STORY?

The editor of this publication has often requested contributions of manuscripts, news items, and shaggy dog stories for possible publication. Al Roberts of Georgia State University submitted the following dialogue which he calls a shaggy dog story. Because of Dr. Roberts untiring efforts on behalf of the Academy, this editor felt that the following story should be made public. This is a dialogue between a radio announcer and the chief of an Indian tribe in Indiana. It is about a medical situation which has confounded all of the experts:

(A)nnouncer: Tell me, chief, what are the symptoms of this disease?

(C)hief: No can sleep. Never sleep. Much awake all the time.

(A): You mean you stay awake for days and never get to sleep?

(C): Yes, no can sleep. Never sleep.

(A): Are you the only person in the tribe with this terrible affliction?

(C): No, all tribe, no can sleep. Never sleep. Tribe always awake.

(A): You mean to say your entire tribe has this horrible disease and they never get to sleep?

(C): Entire tribe. No sleep. Never sleep.

(A): Remarkable. Chief, how many persons are in your tribe?

(C): Tribe is me and 499 others.

(A): I see, and what name do they give to your tribe?

(C): INDIAN NAPLESS 500.

UTILIZING THE HISTORY OF ACCOUNTING TO IMPROVE COMMUNICATIONS SKILLS

by

Sandra D. Byrd

David B. Byrd

Southwest Missouri State University

During recent years, many comments have been made regarding the lack of good written and oral communication skills of entry level accountants. Accounting academicians realize that there is a weakness in the communications area. Many professors do not feel, however, that they have sufficient time to address the area of communication skills in the present undergraduate accounting courses because it is difficult just having time to cover technical accounting material. To increase accounting knowledge and at the same time improve communications skills were the objectives of an intersession course for accounting students which was offered between semesters as a one hour elective. The course met 3 hours a day for 5 days and was aimed at accounting juniors and seniors.

The History of Accounting was picked as a topic because during the regular semester there is very little time to discuss the development of accounting theory and the accounting profession. There are numerous articles on the subject which can provide very interesting reading to help students understand how accounting theory and the accounting profession have developed over time. Hopefully this will lead to a better understanding of present accounting theory and will help students when they are faced with future developments of theory and the changes in the profession.

The first day of class was spent briefly reviewing the history of accounting theory and the accounting profession, assigning historical time periods and chapters out of selected books to individual class members to report on in later sessions, and touring the University Library. The early years of the profession, prior to the 1930's, were emphasized. Due to the lack of time during an intersession course, most of the assigned reading was from selected books rather than from periodicals. These books included *Accounting Evolution to 1900* by Littleton, *Essays on the History of Accounting* and *Further Essays on the History of Accounting* by Yamey, *History of Accounting and Accountants* by Brown, *Ancient Double-Entry Bookkeeping* by Geijsbeek-Molenaar and *The Rise of the Accounting Profession, Volume I* by Carey.

The tour of the library emphasized the location of accounting literature and methods for using computer searches to locate material on accounting topics. The emphasis was placed on locating accounting literature due to the fact that most of the students had limited experience in using the library for accounting research.

During the remaining four days of the class, students were involved in the oral and written presentation of a report on their assigned material. Three oral and written presentations were made. For the first presentations the students were allowed to pool their assigned chapters

and make their presentations in groups of four. The groups were allowed to divide their presentation and reporting requirements any way they wished; however, each student had to prepare at least a one page outline of their assigned chapter and each student was required to participate in the oral report. The second presentation was given in groups of two, again on the assigned chapters. For the final presentation each student was responsible for an individual oral and written presentation on their assigned historical time period.

The class was highly successful in achieving its objective of improving communication skills, in that the students did much better on both their written outlines and oral reports as the week progressed. The students also felt that they had learned a great deal, both from the research they performed on their assigned chapters and years, and also from listening to the other presentations. An additional measure of success was the fact that the students expressed an interest in taking the course again to cover additional years of accounting history.

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AMERICAN THOUGHT TO 1921 CONCERNING ACCOUNTING FOR CHANGING PRICES

Walker Fesmire
University of Michigan-Flint

Early papers and articles on accounting subjects are often relevant to contemporary accounting problems and their solutions. It was suggested by Richard Brief that early accounting thought and methods were more advanced than most people realized. In "A Note on 'Rediscovery' and the Rule of 69," Brief pointed out that early American accountants were thoughtful and conscientious in their efforts to develop theory and to understand the nature of broad accounting issues. He pointed out that a review of their work revealed that many of the basic ideas were repeated again and again as if they were new ideas.¹

Would a review of the earlier writings by accountants on inflation reveal that many ideas which we now view as new or recent are actually restatement of earlier ideas or concepts? This article will review the ideas of those that considered the problem between 1918 and 1921. Included in the review will be the problems identified by those early writers and the obstacles that they found to the implementation of solutions.

Basic Concepts of Price-Level Thought Between 1918 and 1921

In the decade after World War I, the problems of accounting for inflation attracted the interest of only a few accountants.² Their major areas of concern were with long-term assets and the recognition of depreciation. These writers, through supplementary discussion, identified several of the related problem areas caused by inflation.

In 1918, Middleditch recognized many of the problems caused by inflation.³ Between 1918 and 1921, others added to Middleditch's list. These individuals charted points of inquiry into accounting for changing prices. The points included:

1. The effects of the instability of the monetary units on the preparation of financial reports and in the management of the firms were noted.
2. Distortions in data resulting from shifts in purchasing power, which led to doubts about the usefulness of the information, were also considered.
3. Methods of adjusting the accounting data were proposed and evaluated.
4. The advantages, limitations, and weaknesses of indexes were reviewed.
5. Accounting for fixed assets during inflation was recognized as being a critical element of price-level accounting. The early authors recognized that the depreciation method chosen was influenced by the decisions as to whether the objective was to maintain the physical plant or the investment in dollars. Most of the group supported the concept that the physical plant be maintained.
6. Early authors recognized that ignoring inflationary price changes resulted in overstatement of profits as well as in unjustified payment of taxes, dividends, and wages.
7. Despite the general beliefs, a few of the group held the view that the price increases occurring were not temporary.
8. Some noted that inflation had a disrupting effect. The amount of the disruption depended upon the ability or inability of the business or the individual to adjust prices or bring about wage increases before the fact, after the fact, or not at all.
9. The influence of governmental agencies, such as the Interstate Commerce Commission and the Internal Revenue Service, on the development of accounting was reviewed. In this

respect, writers considered the influence of depreciation upon utility earnings and whether depreciation should be based on historic cost, on renewal cost, or on replacement cost.

Of the above listed items, only selected ones will be considered in detail.

Stability of the Monetary Unit

The rapid changes in the purchasing power of the dollar during the 1970's brought forth the recognition of the instability of the monetary unit. Was this instability only a recent occurrence?

Middleditch, in 1918, first considered the question of the stability of the dollar when he noted that:

In view of the conditions in recent years the fixity of the unit with which accountants deal most may well be questioned. Is the dollar a definite and invariable unit of measure?⁴

He noted that the average working individual understands the effects of inflation. He described the worker's understanding of inflation thus:

We need not seek far for an answer. The statistician with charts and tables and the economist with his theories cannot tell us half so well as the average man of limited means and a relatively fixed salary. His knowledge that the dollar is at present rapidly shrinking is based on first-hand contact and cannot safely be disputed. The economist and the statistician merely confirm in more precise terms what the average man has already realized in a rough and practical way.⁵

Bauer also recognized the effects of inflation when he stated that rising prices and wages gave the recipient a sense of prosperity that was deceptive and unreal. As inflation occurred, many costs were hidden and thus were not recognized as they occurred. Eventually, these hidden costs must be borne, at which time their detrimental effects were recognized:

People fool themselves with the greater number of dollars that they receive, while they do not count the full costs that ultimately must be paid and they actually become poorer in the meanwhile.⁶

Paton was concerned about the questionable ability of the dollar, during periods of inflation, to represent business transactions accurately. Unadjusted accounting data resulted in misinterpretation and misunderstanding. He expressed his doubts about the dollar as follows:

Accountants deal with an unstable, untrustworthy index; and accordingly, comparison of unadjusted accounting statements prepared at different periods are always more or less unsatisfactory and often positively misleading.⁷

Paton noted that Congress had established an unchanging legal definition of the dollar but that, in spite of whatever Congress has to say about the matter, the quantity of goods and services that the dollar would purchase constantly fluctuates. The purchasing power of the dollar was undefined:

The significance of the dollar—the accountant's yardstick—is consistently changing. We know that the 1920 dollar is a very different unit from the 1910 dollar, . . .⁸

Paton's description of the unstable dollar in 1920 could very well apply to that of the 1980's. It should come as no surprise, then, that problems faced by an individual living in 1920 were similar to those experienced by one in 1985. Here Paton described the effects of inflation:

The apparent economic gain measured in dollars is often largely or entirely nominal because of the lessening value of the dollar. Many a taxpayer has felt the injustice of being obligated to pay large sums in income and profits taxes from net earnings . . . which were fictitious as a measure of the true improvement in economic conditions.⁹

The effects of income tax bracket creep—usually regarded as a recent phenomenon—was also a concern to the individual of the 1920's. Total income increased but, because of higher prices and higher taxes, economic status diminished. Paton noted that the 1920 wage earner was probably

having difficulty improving or maintaining his economic status:

No doubt certain wage-earners in recent years have found all their nominal increases in compensation more than offset by advancing prices of the things which they . . . purchase.¹⁰

With this comment, Paton, in 1920, joined other early accountants in their recognition of the fact that the individual was aware of and realized the effects of changing prices.

Middleditch recognized this relative character of the dollar's strength. "If money were an end rather than a means," he says, "the dollar would be perfectly stable. The true value of the dollar was measured not by what it was, but by what it will get."¹¹ Chinoweth was also concerned about the use of the dollar as a medium of exchange when he noted that "the real value of the dollar is its purchasing power, which changes as prices rise and fall."¹²

Thus, early accountants recognized the instability of the dollar as a medium of exchange. To counter this state of affairs, they proposed several solutions to the problem. The next section will look at some of these early solutions.

Proposals for the Recognition of Purchasing Power Changes

In the physical sciences, the unit of measure was always the same or was adjustable for the differences in physical conditions. This stability of units made the comparison and interpretation of events occurring at different times acceptable. Also, the stable unit permitted precise prediction of future events by the physical scientist. However, the businessman and the accountant, who did not deal with conditions subject to controls as precise as those of the physical scientist, found it more difficult to compare, to interpret, and to predict the results of financial data. Thus, because of the combining of entries

which represented different dollars, unadjusted statements were unsatisfactory and often misleading.

The rapidly changing purchasing power of the dollar after World War I justified the adjustment of accounts and financial statements to reveal the purchasing power invested in each firm. Some of the early writers held the view that the accounts should be adjusted to show comparative economic conditions between balance sheet dates and for operating periods.

Middleditch recognized the need for comparability but was unable to persuade the businessman to adjust the books. Nonetheless, he tackled the problem of how adjustments should "be made in the accounts to reflect the changing value of the dollar?"¹³ Middleditch initiated his discussion of how he would account for the changing value of the dollar with a consideration of index numbers. He noted that although prices of individual items may fluctuate without an interrelationship, prices in general follow a definite trend. The index number traced the general level of prices as well as variations in the price level.

Middleditch noted that several index numbers were being computed and that the different index methods yielded results that were generally in agreement. Of the various index methods, he preferred the Bradstreet index since it was not computed using a base year. As a result, comparison could be made directly between any two years rather than indirectly from each year to the base year.

Having selected a price index for use, Middleditch then dealt with how the varying unit would be handled in the books of account. The problem was how to make adjustment to all open accounts using the current dollar while not impairing the usefulness of the information in the accounts. In an effort to minimize the

work involved in adjustment, all accounts were restated in current dollars at the statement date. If a gain or loss was recognized during the adjustment process, it was allocated to or charged against the period in which it occurred.¹⁴

After recognizing the effects of the changes in purchasing power, three of the early accountants proposed techniques which they believed would handle the adjustments. Middleditch proposed to adjust all accounts to current dollars applicable at the statement dates. Paton suggested that the accounts be adjusted to replacement cost based on the specific prices applicable to the firm. Chinoweth recommended the use of historical cost if the asset was the only item which had undergone an index shift, while the replacement cost would be used if the general price index had undergone a shift.

Middleditch claimed his method was acceptable because with the use of index numbers it was "a means of comparing the value of the dollar at one time with its value at another time, and by the addition of a few adjusting accounts a means of incorporating these values in the books without detracting from the information they already contain."¹⁵

Middleditch left two topics out of his consideration and hence unexplained. First, he did not explain how he would adjust the income statement during periods of changing prices. His discussion of current assets leads one to assume that he would hold that revenue and expenses occurred frequently and so close to each other in time that price changes would not affect the matching of revenues and expenses. Second, he did not indicate the entire entry to be made when assets or liabilities with a related "monetary fluctuation" account were disposed of or liquidated. It appeared that the adjusting entry to "monetary fluctuation" and

"reserve for monetary fluctuation," and the amount of the realized gain or loss, would be the difference between the selling or liquidation price and its original amount.

Paton was also attracted to the problems of price changes. When prices were shifting, Paton held that the accounts and their related financial statements did not reveal the changes in the economic well-being of the firm. This failure to consider the changes in purchasing power resulted in financial statements that lack comparability. His suggested solution was that price-level adjusted supplementary accounts should be established and reported in conjunction with historical cost financial statements.

As to the price index to be used, Paton rejected the general price index for supplementary accounts. He preferred the price index for the specific items because:

... the particular business does not deal with goods in general but with special classes of commodities, rights, and services. Accordingly, it is the function of accounting to follow the investment of the specific business and to register the effect upon the assets and equities of the business.¹⁶

Paton stated that he believed the solution to the comparability problem lies not in the revision of orthodox accounting methods but in a shift to closing valuations. He chose the accounting for plant and equipment at the close of a period to illustrate his view. His illustration showed that if these assets were valued at replacement cost (effective current cost) during a period of rising prices, then depreciation would be increased. This increased depreciation would provide funds for the firm as they became part of proprietorship.¹⁷

Chinoweth also looked at fixed assets and the effects of increasing prices upon them. He did not, however, attempt to develop or to illustrate a procedure for handling adjustments for price level changes. The increased cost of replace-

ment of fixed assets over their original cost was of concern. He believed that depreciation should be charged on the basis of replacement cost.

In summary, these early accountants, writing at a time when price level changes were not a widely discussed topic and with few related materials for review, made major contributions to early thought on the topic of accounting for purchasing power changes. Paton recognized the need for adjusted financial statements but warned that new methods should be adopted only as adequate technical methods were developed.¹⁸ Middleditch also worried about the continued usefulness of accounts adjusted for price changes. His concern was with the accountant's ability to adjust the accounts and maintain the usefulness of information contained in them.¹⁹ Chinoweth stressed the use of the dollar as a medium of exchange. His concern was with the recognition of depreciation under price changes and identifying a better basis for calculation of depreciation.

Long-Term Assets and Depreciation

The writings of most of the early accountants reviewed either slightly referred to or considered at length the problem of valuation of both long-term assets and the amount of depreciation. Middleditch's ideas on depreciation and long-term assets have already been reviewed in "Proposals for Recognizing Purchasing Power Changes." His ideas concerning both long-term assets and depreciation were presented in this earlier section as a result of his intertwining presentation—the one could not be sensibly discussed without the other. Thus, his ideas on depreciation and long-term assets will not be repeated at this point.

Bauer placed major emphasis upon long-term assets, the effects of depreciation, and its possible consequences. He

was concerned by the manner in which business and society in 1919 had overlooked depreciation as a provision involved in the recovery and renewal of industrial plants. Before that time, depreciation had been haphazardly handled, and it was his opinion that these faulty methods had contributed to many business failures. He felt that even those firms recognizing depreciation were in extraordinary danger if they were not prudent in their depreciation policies. If the firm based its depreciation on original cost, it could find it difficult to replace long-term assets if prices had increased significantly.

Although other methods may have been used, Bauer pointed out that methods for recovering of plant investments were generally handled either by charging to operating costs a systematic allowance for depreciation or by charging to operation the original cost of property retired as renewals were made.²⁰ Both methods attempted to ensure that when the long-term assets were retired, their original cost would have been recovered out of earnings. It was clear that both methods charged only the original cost of the retired property to operations. If upward price trends continued, this policy would be inadequate. Since replacement would cost more than the retired property, the depreciation should be based upon the higher replacement costs.

Bauer then asked what the objectives of management were when it recognized depreciation. Was it to maintain the investment in terms of dollars, or was it to maintain the physical productivity of the property?²¹ For a mature firm, the objective was the maintenance of the physical plant without the investment of additional capital funds or additional debt. Thus, as the price level increased, the depreciation charge should be based upon the cost of replacement property

which had a similar function and capacity.²²

Rastall also stated that the objective of depreciation was to maintain the physical capacity of the long-term assets. He also noted that when depreciation was based on original cost, apparent or false profits occurred since profits feel the stimulating effects of rising prices before they feel the effects of increasing costs.²³

Chinoweth also noted the importance of maintaining physical capacity with the statement that the purpose of depreciation was not to return the same number of dollars invested to the investor but to return the original invested purchasing power.²⁴

Paton also looked at the objective of depreciation. He noted that in order to base depreciation on replacement cost, the conventional method of valuation must be abandoned. Then separate charges and credits were made to assets and proprietorship accounts so that the balance sheet reflected any changes resulting from replacement cost utilization. He believed that a change from historical to replacement cost could be made without distorting financial statements. Thus, it appeared as though Paton would find the basing of depreciation on replacement cost acceptable as a method for the maintenance of the physical plant.

In summary, these early accountants realized the possible misconceptions that might be conveyed by financial statements based upon historic cost. Most of them recognized that the maintenance of the physical plant was most critical and therefore recommended that depreciation be computed under the replacement cost method. They were concerned that the public would not understand replacement cost and thus be confused by its use. They were also concerned as to whether or not the profession had the skills to develop a

workable replacement cost method and the ability to implement the method.

Effects of Overstatement of Profits

It was recognized that, during a period of rising prices, profits were overstated if sales were reported at present prices while expenses were calculated at historic costs. Of the early accountants, Bauer was the only one to have looked in depth at the effects of overstatement of profits when he looked at the effects of this overstatement on business and society.

During inflationary periods, revenues were more quickly adjusted to current levels than were costs. This resulted in an inflation-induced overstatement of profits which in turn required increased tax payments and unjustified payment of dividends. The overall effect was a hidden deletion of capital and reduction in physical plant. People were deceived by the larger number of dollars received when payment for all costs were not required at the time of receipt. This prosperity of rising prices was unreal since the people became poorer as a result of the decline in the quantity of goods and services they were able to purchase.²⁵

Paton scanned the effects of rising prices on income. He noted that the apparent economic gain measured in dollars was often largely or entirely nominal because of the reduced value of the dollar. Many taxpayers were required to pay larger sums for taxes on inflated income, income which measured a fictitious improvement in their economic conditions.²⁶

Around 1920, practicing accountants were stating that the concern about the overstatement of profits from inflation was unwarranted. They held that the then high prices were only temporary and that prices would return to the lower pre-World War I levels. That prices could return to pre-World War I levels was recognized by Bauer, but he countered with the view

that prices may go much higher and stay there. He noted that if higher prices occurred, either the business community or the public would be compelled to make renewals at higher dollar costs.

Bauer recommended that the overstatement of profits and its potential devastating effects be recognized as a serious problem:

The public should provide now for complete renewals of property, together with all other costs, whether in strictly private business or public utilities. If it does not make adequate provisions, it will overstate its present prosperity, will indulge in extravagant personal expenditures and in the end will find itself poor because of the present showing of unearned profits.²⁷

Thus, not knowing what the future would bring, Bauer suggested that the sensible policy was to accept inflated prices as permanent and to begin to recognize all costs accordingly.

Conclusions:

In summary, the accountants of the 1920's showed a remarkable understanding of the effects of price increases. They also were concerned about the proper allocation and matching of costs. These early accountants recognized the problems

caused by the instability of the monetary unit and its effects upon the comparability of financial statements. Accounting for long-term assets was one of their major areas of concern for which they suggested possible methods that would adjust original costs for inflationary effects. Whether maintenance of investment or of physical plant should be advocated was considered the key to providing useful information on the financial statements.

FOOTNOTES

¹Brief, Richard P., "A Note on 'Rediscovery' and the Rule of 69," *The Accounting Review*, October, 1977, p. 811.

²Among the early accountants dealing with the subject were: John Bauer; J. M. Chinoweth; J. Hugh Jackson; Livingston Middleditch, Jr.; William A. Paton; Ernest S. Rastall and Henry W. Sweeney.

³Middleditch, Livingston, Jr., "Should Accounts Reflect the Changing Value of the Dollar?" *The Journal of Accountancy*, February, 1918, pp. 114-20.

⁴*Ibid.*, p. 114.

⁵*Ibid.*

⁶Bauer, John, "Renewal Costs and Business Profits in Relation to Rising Prices," *The Journal of Accountancy*, December, 1919, p. 413.

⁷Paton, William A., "Depreciation, Appreciation and Productivity Capacity," *The Journal of Accountancy*, July, 1920, p. 3.

⁸*Ibid.*, p. 2.

⁹*Ibid.*, p. 3.

¹⁰*Ibid.*

¹¹Middleditch, p. 114.

¹²Chinoweth, J. M., "Depreciation and the Dollar," *The Journal of Accountancy*, June, 1921, p. 471.

¹³Middleditch, p. 115.

¹⁴*Ibid.*, p. 116-17.

¹⁵*Ibid.*

¹⁶Paton, p. 4.

¹⁷*Ibid.*, p. 6-9.

¹⁸*Ibid.*, p. 2.

¹⁹Middleditch, p. 116-17.

²⁰Bauer, p. 413.

²¹*Ibid.*

²²*Ibid.*

²³Rastall, Ernest S., "Depreciation Reserves and Rising Prices," *The Journal of Accountancy*, February, 1920, p. 123.

²⁴Chinoweth, p. 472.

²⁵Bauer, p. 413.

²⁶Paton, p. 3.

²⁷Bauer, p. 419.

MANAGEMENT ACCOUNTING . . .

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trustee and past-president of the Academy of Accounting Historians, and as a member of the Harvard Business School 75th Anniversary Colloquium on Field Research in Management Accounting and Control.

A packet of course readings and outlines will be mailed on August 1st to persons registering for the course before the July 10, 1986, deadline. The course will be held on Wednesday, August 20 and the tuition fee is \$100. Those interested should sign up when they send in their AAA annual meeting registration form.

HENRI FAYOL, ACCOUNTING . . .

(Continued from Page 1)

providing accurate, clear and precise information about the present and future economic position of the organization. In his view an efficient accounting system was a powerful managerial instrument and training institutions paid inadequate attention to the subject. This probably reflected his belief that every organizational function included a financial dimension. For Fayol (1949, pp. 4-5), capital and sources of finance were an indispensable basis for organizational operations.

Indeed, Fayol considered accounting and finance to be of sufficient importance that he specified them as a percentage of total abilities required of different levels of organizational personnel. This is shown in Table 1 (Fayol, 1949, p. 8). Consistent with the importance which he attached to accounting and finance, Fayol advocated its teaching within management training courses, particularly for "higher industrial employees" (Fayol, 1949, p. 83; Brodie, 1967, p. 41).

Fayol also advocated the employment of a corporate "plan of action." Once again, the accounting and finance functions were essential components of this strategy. He required special reports on results achieved during the past budgetary period and an "anticipatory summary" of activities and results for the forthcoming budgetary period. Not only did he advocate constant revisions to yearly forecasts but also the preparation of 10-year forecasts including the same accounting and finance components (along with other elements such as technical and management).

This annual plan recommended by Fayol, closely approximated the accountant's notion of a budget (Pearson, 1945, p. 74). Indeed it could be argued that

since Fayol was a founder of the classical management school of thought and profoundly influenced management thinking for many subsequent decades, management's subsequent view of the importance of corporate budgeting will have prompted its further development by accountants. Of course his (indirect) contribution to the impetus for corporate budget development would only have been one of many, but nonetheless the possibility should not be overlooked particularly in view of his early fame in France and his later fame in English-speaking countries. Indeed the well known management writer Gulick (1937, p. 13) produced a list of the elements of management entitled POSDCORB—planning, organizing, staffing, directing, co-ordinating, reporting and budgeting. He clearly stated that his list was adapted from Fayol's writing in that his "planning," "organizing" and "co-ordinating" approximated Fayol's, while "directing" replaced Fayol's "command," but "staffing" and "reporting" were Gulick's own additions. More importantly, "budgeting was Gulick's substitution for Fayol's "control" (Massie, 1965, p. 389). Fayol's concept of the importance of control in a budgetary sense was therefore being passed on in this way. Certainly accountants from the 1930s onwards placed great emphasis upon control through budgeting (Theiss, 1932, p. 13; 1935, p. 156; Davis, 1932, p. 9; Hawkins, 1935). Fayol's contribution to this view, while having occurred indirectly through his great influence upon management thought, should not be dismissed too lightly, especially given the traditional service provided by corporate accountants to meet management needs and given Fayol's influence upon managers (through management writing and education) over many subsequent decades (George, 1972; Wren, 1979).

Table 1
Relative Abilities Required in Organizations and Employees

Employee Type	Abilities Required					
	Managerial %	Technical %	Commercial %	Security %	Accounting and Financial %	Total %
Large Organization:						
Workman	5	85	—	5	5	100
Foreman	15	60	5	10	10	100
Superintendent	25	45	5	10	15	100
Section Head	30	30	5	10	25	100
Technical Dept. Head	35	30	10	10	15	100
Manager	40	15	15	10	20	100
Small Firm	25	30	15	10	20	100
Medium-sized Firm	30	25	15	10	20	100

DEFINING CONTROL FOR ACCOUNTANTS

While it was clearly not Fayol's direct intention, such has been the repetition of the key elements in his definition of control by accounting writers that it may as well have been written especially for them.

"In an undertaking, control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established. It has for object to point out weaknesses and errors in order to rectify them and prevent recurrence. It operates on everything, things, people, actions."

(Fayol, 1949, p. 107)

Many definitions of control expounded by accountants in the 1960s and 1970s have consciously or unconsciously closely approximated the essentials of this Fayol definition. Often this approximation has taken place in a budgeting context. Jaedicke (1962, pp. 181-182) for instance conceived of control as analyzing present performance in the light of some goal or standard to see if performance measured up to standard or plan, and feeding back information about performance. In 1966, the Committee to Prepare a Statement of Basic Accounting Theory (1966, pp. 45-51)

of the American Accounting Association defined control as a process of ensuring that chosen alternatives were accepted and that plans for implementing them were carried out.

An examination of texts on costing, budgeting and management accounting published since 1920³ revealed that most authors have not provided any source references for their definitions of control (and indeed in earlier decades, for most of their text). One exception was Garden (1937, p. 236) who referred to Fayol's *Industrial and General Administration*. Only one other accounting writer has shown signs of recognizing Fayol's possible contribution to accounting thought. In his path-breaking study *The Game of Budget Control*, Hofstede (1968, pp. 21, 32, 87) attributed the founding of the idea of budget control for business directly to Fayol and linked his early ideas on budgeting to the still-accepted notion of responsibility accounting.

Could these definitions of control produced in the 1960s and 1970s bear similarities to the Fayol definition merely by chance? While such a possibility can never be disproved conclusively, the

similarities do not appear to be a mere chance occurrence. In the first instance the definitions have been produced by a range of authoritative sources, undoubtedly reflecting and building upon the conventional wisdom concerning control in both the management and accounting literatures. Second, their definitional components are very similar and *closely* approximate the Fayol definition. Third, these authors' general perspective of control appear to be derived from that adopted by the classical management school of thought (as was the perspective of many of their predecessors in the accounting literature) of which Fayol was a major "founding father."

It can therefore be argued that while Fayol may have been thought of as a pioneer in management thought, his influence in certain respects does appear to have spread into the accounting discipline.

A FOUNDATION FOR GOAL CONGRUENCE

Closely tied to Fayol's view of control were a group of principles that he formulated, called Unity of Command, Unity of Direction and Subordination of Individual Interest to General Interest (Fayol, 1949, pp. 24-26). Unity of Command stated that each employee should receive orders from only one superior and that if this were violated, authority, discipline, order and stability would all be undermined. The principle of Unity of Direction stated that a group of activities having the same objective should have one head and one plan. This was held to be a prerequisite condition for unity of action, co-ordination of strength and focusing of effort. The combination of the three principles of Unity of Command, Unity of Direction and Subordination of Individual Interest to General Interest appears to have laid the

(hitherto unrecognized) foundation for the concept of Goal Congruence which appeared in the accounting literature of the 1960s and 1970s.

The stated object of Goal Congruence, as specified by accounting writers of the 1960s and 1970s, was the structuring of accounting control systems⁴ to ensure that personal goals of organization members were in harmony with organizational goals. Indeed, they argued that a personal commitment to formally stated organizational goals should be required of and secured from all personnel (Horngren, 1967, pp. 3-7; Brown, 1972, p. 30; Buckley, 1973, p. 62; Vancil, 1973, p. 77). The formal organizational goals to which accountants were to encourage personnel's adherence were those laid down by top management (Stedry, 1960, p. 17; Welsch, 1971, pp. 22-23; 1976, p. 19; Benninger, 1973, p. 20). What was unique about the goal congruence concept, and what distinguished it from co-ordination, was that it extended down the organizational hierarchy to include the personal goals and aspirations of all organization members. The stated object of control was to ensure a congruence between personal and organizational goals (Welsch, 1976, p. 46; Searfoss, 1976, pp. 375-376; Sizer, 1975, p. 8).

While the Goal Congruence concept has been thought to be of more recent origin, the combination of Fayol's three principles appears to have anticipated it, even though Fayol did not employ the term "Goal Congruence." The meaning imputed to Goal Congruence by accounting writers bore a strong resemblance to the meaning which Fayol attributed to his principles of Unity of Command, Unity of Direction and Subordination of Individual Interest to General Interest. Furthermore, just as accountants appeared to distinguish between Goal Congruence

and co-ordination (explained above), so Fayol (1949, pp. 103-107) had much earlier introduced a principle of co-ordination quite distinct from the group of three principles just enumerated.

Thus, while the accounting literature of the 1960s and 1970s appeared to introduce the concept of Goal Congruence, it appears likely that authors had in fact reverted to a group of classical management principles enunciated by Henri Fayol, a founder of the classical management school of thought.

REFLECTING THE FRENCH INDUSTRIAL ENVIRONMENT

With respect to the organization which he managed, Fayol was said to be a financial success. Urwick has recorded that when Fayol was appointed chief executive of Commentry-Fourchambault in 1888, the company was on the verge of bankruptcy. No dividend had been paid since 1885. Its metallurgical works were making heavy losses and its coal measures were nearly exhausted. Yet when Fayol retired at the age of 77 years, the company's "financial position was unassailable and its staff of exceptional quality." Fayol is said to have considered his success in restoring the company's fortunes to have been due "to the new style of administration he introduced and to that alone" (Brodie, 1967, p. 3; Urwick, 1956, pp. 21-23).

Both Fayol's management success, his concepts of budgeting and control, and his anticipation of the concept of Goal Congruence can to a large degree be attributed to the environment in which he spent his working life. Indeed it can be argued that both his management style and his concepts emerged as a product of the socio-economic environment peculiar to French industry at that time. A brief review of that environment will serve to illustrate this point.

Until the close of the 1850s and early 1860s, leading steel producers were to be found in Lorraine and Alsace (northeast France), Anzin and Denain (northern France), Fraisans (eastern France), near St. Etienne (southeast of central France) and at Commentry and Fourchambault (central France). Commentry-Fourchambault by the close of the 1850's, however, was entering a period of decline from its prominence of earlier days. General changes of industrial location meant that a large part of French steel making after 1860 gradually shifted away from central France to the north and northeast. The decline of steel making in central France continued to the close of the 19th century (Clapham, 1966, p. 237; Palmade, 1972, p. 156). After 1878, the development of a process allowing phosphoric ore to be used, increased the importance of metal-making in Lorraine. In many locations organizations pursued vertical integration as mines, blast furnaces, steelworks and rolling mills were absorbed into one firm through either amalgamation, joint partnerships, or holding companies and subsidiaries. Ties were formed between the east of France and central or northern locations. The east was the main location for pig iron production while central and northern companies concentrated upon finished or specialized products (Palmade, 1972, pp. 201-203).

Henri Fayol's organization reflected these basic trends. His company was of long-established reputation, operated in central France and suffered failing fortunes at the time of the general decline of the region, but survived and purchased or absorbed not only the Bressac mines and the mines and works of Decazeville but also purchased the Joudreville mines in the eastern French coalfield. Thus Commentry-Fourchambault pursued a policy of integration.

The Mining and Metallurgical Industries

During the first half of the 19th century the iron and steel industry, while being archaic in some respects, achieved satisfactory increases in productivity. However, this success had been achieved through the intensive exploitation of French ores which showed sign of exhaustion by 1860. Fuel was also a problem to French industrialists (Caron, 1979, p. 157). Even when fresh sources were discovered (e.g. in the north of France), they were often difficult and expensive to extract and did not tend to yield top quality coal. Compared to the larger coal reserves of England and Germany, France was in a poor position. The accompanying high price of French coal, imported and home produced, caused higher French steel prices and placed French steelmakers at a disadvantage in international markets (Friedlaender and Oser, 1953, pp. 228-229; Clapham, 1966, pp. 238-239).

Nevertheless, steelmaking continued in France and gained renewed impetus from processes for making steel from the phosphorous-bearing case iron of Lorraine enabling medium-sized factories to produce high quality output. By the 1890s, the Nord region had again become active in the iron and steel industry while the Loire region had moved into metal processing and refined products (Caron, 1979, pp. 158-159). The recovery of the French steel industry (including Fayol's organization) was further aided by the integrated structuring of plants, concentration of control in large organizations increasingly drawing on capital market funds, and a shifting of the base of French industrial activity towards heavy industry (Kemp, 1972, pp. 18-19). By the eve of World War I the French iron and steel industry technically ranked among the best in Europe (Caron, 1979, p. 159).

During World War I, however, the northern and eastern areas of France were enemy-occupied or in the front-line war zone, so that valuable industrial capacity was lost. This gave fresh impetus to such industries as the iron and steel industry in southern regions and encouraged more rapid technological and managerial development as attempts were made to replace losses in the north (Kemp, 1972, p. 14). Fayol's organization would clearly have benefited from this situation.

It is evident that the reported rise in the fortunes of Fayol's organization under his command coincided with the general trend in the fortunes of the metallurgical industry as a whole. When he took over control of the reputedly ailing company, the industry as a whole was experiencing difficulties. Coal prices among other factors rendered French steel uncompetitive internationally and encountered French consumer restraint in an already slow-growing domestic market. Prices and profits were falling generally and northern France became the focal point for mining and metallurgy activities. Later, Fayol's organization grew under his direction, but again this was consistent with a tendency to vertically integrate in the industry. While it is said that Fayol retired in 1918 leaving the company in an "impregnable" position, it must be remembered that the industry as a whole had experienced an upturn since around 1905, and that the War had restored the central and south central French mining and metallurgical industry's importance due to the loss of northern regions to enemy occupation and front-line battles. Thus, a strong case can be mounted for attributing Fayol's success to a combination of his management and the influence of his economic environment rather than solely to his own personal prowess.

The Chief Executive

So-called "self made men" and family firms were prominent among French industry of the 19th century (Palmade, 1972, pp. 156-157). Firms were closely identified with owners and the succeeding generations of the proprietary family. Managers were often drawn from the family or by absorbing them through marriage into the family. With family influence and seniority often playing a greater role in manager selection than skill or aptitude, French industrial management remained conservative and hostile to outside influences and resources which it tended to regard as a threat to family control of the organization. Bankruptcy and takeover were much feared by the family management and only aggravated the conservative nature of management decisions. Indeed young graduates of engineering schools were said to find difficulty in gaining positions in such firms and many consequently turned away from industry, to its own technological and financial disadvantage (Hohenberg, 1968, pp. 124-126).

While old dynasties did survive technological change and changes in regional activity, boards of directors began to replace the old individual "ironmaster." This began to widen the gap between workers and management as personal master-servant relationships disappeared. Nevertheless, there often remained a "director-general" in charge of firm operations and this appointment required technical skill, commercial ability and human management skills (Palmade, 1972, pp. 201-204). This was the role that Henri Fayol came to fulfill at Commentry-Fourchambault.

The Environment in Review

When this sketch of Fayol's industrial and economic environment is reviewed, a number of observations can be made. The

success of his company reflected not just his own personal style of management, but the regional and national industry conditions and trends of his period. Furthermore, his emphasis upon the importance of budgeting and his definition of control reflected the requirements of a manager who had to cope with expensive sources of raw materials, formidable overseas competition and a stagnating home market. Attention to cost control via budgetary-type systems represented a necessary response to such constrained industrial conditions. His anticipation of the Goal Congruence concept via his principles of Unity of Command, Unity of Direction and Subordination of Individual Interest to General Interest also appear likely to have been formed as a result of the integration (both vertical and horizontal) processes which took place during the growth of his organization as well as the "director-general" role which, by management custom of the time, he filled at Commentry-Fourchambault. This would have accustomed him to the notion of corporate goals set by top management and the need to align subordinate goals with them throughout such a large organization.

FAYOL IN RETROSPECT

The foregoing analysis would suggest that while Fayol was clearly a prominent management thinker whose ideas not only maintained their impact upon management writers but also appear to have influenced some accounting writers for many subsequent decades. Yet he was not a unique individual divorced from his surroundings. His managerial success, his administrative principles, his belief in the importance of accounting and budgeting, his definition of control and his anticipation of the Goal Congruence concept reflected his experiences in adapting to the socio-economic environment of his indus-

try. The French steel industry's predicament in international markets and the restricted demand for its output at home would certainly have predisposed managers such as Fayol to emphasize the need to control and restrict costs and to advocate the importance of accounting and finance considerations. His overseeing of a large-scale integrated "combine" would also have prompted his interest in control-associated principles such as authority, command, coordination and discipline, especially in relation to what eventually became a geographically diverse operation such as Commentry-Fourchambault-Decazeville. His anticipation of the Goal Congruence concept reflected both his own "director-general" role and the integration processes which sponsored the growth of his firm.

One further observation should be made concerning Fayol's ideas and their employment by some accounting writers of subsequent generations. While not wishing to suggest that he was a sole influence upon accounting thought in relation to budgeting and the definition of control (although it is contended that he was a major influence upon the later formation of the Goal Congruence concept), it has been argued that his contribution should not be overlooked. However, just as this paper has placed the development of his ideas within their environmental context, so any subsequent evaluation of their current utility in organizational life should be undertaken in context. His concepts appeared appropriate (indeed highly successful) for the size and structure of his organization and the industrial and economic environment within which he worked. It is to a similar structure and environment, in current terms, that his concepts would therefore appear to be most suited. In addition, it appears probable that at least

to a degree, accountants are still employing working definitions and concepts which have not been solely derived from past accounting theory and practice. They may in part reflect early management thought and in turn the management and industrial environment of such early writings. Their present-day suitability for accounting (and management) purposes may therefore be best judged in relation to the degree of similarity between past and present management and industrial environments.

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¹Awards and Prizes:

- The Delesse Prize of the Academy of Sciences.
The Gold Medal of the Société d'Encouragement pour l'Industrie Nationale.
The Gold Medal and Medal of Honour of the Société de l'Industrie Minérale.
Chevalier of the Legion of Honour, 1888.
Officer, the Legion of Honour, 1913.
Commander, the Order of the Crown of Roumania, 1925.

²This was subsequently reproduced in book form by Dunod of Paris in 1925 and was translated into English by the International Management Institute in Geneva in 1929. It was virtually ignored in the USA until it was published there in 1949, while its ideas had achieved wide currency in Europe long before (Urwick and Brech, 1951, pp. 39, 44-45; George, 1968, pp. 105-107). However it is interesting to note that between 1949 and 1965, his book was reprinted 6 times in the English language.

³75 texts held in the library of the London School of Economics were examined.

⁴In particular, budgetary control systems.

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